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FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 4147
INFO RUEHZO/AFRICAN UNION COLLECTIVE
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 0201
RUEHBJ/AMEMBASSY BEIJING 0788
RUEHBY/AMEMBASSY CANBERRA 0657
RUEHLO/AMEMBASSY LONDON 1496
RUEHMO/AMEMBASSY MOSCOW 0790
RUEHOT/AMEMBASSY OTTAWA 0617
RUEHFR/AMEMBASSY PARIS 1336
RUEHSG/AMEMBASSY SANTIAGO 0190
RUCPDC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC

UNCLAS SECTION 01 OF 02 PRETORIA 000781

SIPDIS

SENSITIVE
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DEPT FOR AF/S, EEB/ESC AND CBA
STATE PLEASE PASS USAID
STATE PLEASE PASS USGS
DOE FOR SPERL AND PERSON
DOC FOR ITA/DIEMOND

E.O. 12958: N/A

TAGS: [EMIN](#) [ENRG](#) [EPET](#) [EINV](#) [SF](#)
SUBJECT: DE BEERS - REFORMED EX-MONOPOLIST AS MARKET LEADER
AND PARTNER TO SAG

REF: A. 07 PRETORIA 3891
[1B.](#) 07 PRETORIA 3836

[¶](#)1. (SBU) SUMMARY: De Beers remains committed to South Africa, even as the former diamond cartel company has adopted significant strategic changes and has rationalized its business in South Africa. The diamond company's processing and marketing headquarters is situated in its historical capital of Kimberley, where De Beers sorts and markets all its South African production. De Beers is doing the right things on local empowerment and beneficiation, but it is not clear if South Africa can profitably cut and polish a mix of diamonds. End Summary.

The Big Hole - Where It All Began

[¶](#)2. (SBU) De Beers hosted Energy Officer and Specialist for an April 3 visit to its historic and marketing headquarters at Kimberley in the Northern Cape Province. Kimberley marks where South Africa's first mineral rush began in the 1870's, with the discovery of the first kimberlite pipe. The resulting diamond rush was followed by the formation of De Beers and consolidation and development of the "Big Hole", the largest hand-dug mine in the world. The Big Hole's economic life ended in 1914 and now has been converted to an historical tourist attraction in the center of Kimberley. De Beers operates a fancy, new visitor center that is perched on the edge of the Big Hole. The diamond giant is contesting a claim by a local company to prospect on land that encroaches on the Big Hole. De Beers maintains its commitment to Kimberley by processing all its South African production there and running a plant to re-process historical tailings gathered from mined kimberlite pipes surrounding Kimberley.

[¶](#)3. (SBU) De Beers has implemented a number of strategic decisions in recent years, after abandoning its cartel imperatives to control stocks and settling anti-trust suits with the U.S. and the E.U. De Beers recently shifted its

world-wide aggregating function from London to Botswana, reflecting its commitment to Africa - and in particular - Botswana, where it is in a 50/50 partnership with the government. In South Africa, De Beers has consolidated and focused its mining activities, selling off some of its underground operations in Kimberley, the Free State, and east of Pretoria (Ref A). De Beers is investing significantly in marine diamonds on South Africa's Atlantic Coast, in its large Venetia open-pit mine in Limpopo, and in opening its new Voorspoed Mine in the Free State. De Beers aims to mine and market diamonds profitably and sustainably in South Africa. De Beers likes to think of itself as the "Rolls Royce" of mines, and so it cannot profitably mine some of the older and now marginal mines, where smaller companies may be better placed to extract value. De Beers has been a positive proponent and major partner in the Kimberley Process to implement certification of rough diamonds to combat conflict diamonds (Ref B).

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Market Leader and Support for Local Beneficiation

¶4. (SBU) In this visit and in a separate meeting last October in Johannesburg, De Beers Diamond Trading Company (DTC) Managing Director Faried Sallie stressed that De Beers seeks to serve as market leader, leaving behind its old market-controlling behavior. In addition, Sallie emphasized the new cooperative relationship with the SAG, replacing the previously existing distrust. Most importantly, De Beers is committed to making available rough diamonds to the South African market to support the SAG's calls for increased beneficiation, or local value added production. In

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particular, De Beers has incurred a legal obligation to make available up to 10 percent of its rough diamonds to the new State Diamond Trader (SDT), and it has cooperated with the SAG in bringing technical and marketing expertise to the new state entity. The SDT must pay market value and purchase a representative sample of De Beers's production (i.e., small and large). De Beers also makes available forty percent of the remainder to South African purchasers, under its traditional "sight-holder" marketing system. These purchasers are in turn committed to benefitiate (cut and polish) in South Africa 80 percent of its purchases in the country.

¶5. (SBU) Sallie admitted that the SAG's ambitious goals for beneficiation will be difficult to achieve, particularly in that it is difficult to compete with the expertise in the EU for large diamonds and the cheap, productive labor in India and China for processing samll diamonds. He noted that the SDT was not currently using its 10 percent quota, but was rather purchasing only 3 percent, likely reflecting limited capacity to profitably finance and beneficiate product.

¶6. (SBU) De Beers remains proud of its commitment to South Africa. Sallie stated that De Beers had:

- - Sold a 26 percent Black Economic Empowerment stake to Ponahalo in 2006;
- - Spent approximately \$ 20 million for exploration in 2006;
- - Sold about \$ 700 million of diamonds to South Africa's local cutting industry;
- - Made a significant corporate social investment and support to the local jewelry industry; and
- - Achieved nearly 80 percent voluntary counseling and testing for HIV/AIDS with its employees across South Africa.

¶7. (SBU) COMMENT: It is not easy for De Beers to overcome its perceived history as a cartel in bed with the apartheid government and exploiting mine labor, but it has generally been successful in transforming itself into a good corporate citizen in the new South Africa, including meeting Black

Economic Empowerment imperatives. De Beers has shown its commitment to southern Africa by moving its world-wide aggregation from London to Botswana. It is still not clear how successful De Beers can be in fulfilling the SAG's mandate to benefit rough diamonds in South Africa given lack of skills, labor productivity, and retail market.

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